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AGENDA ITEM #1404

WATER/ABJ/PTL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4365
December 5, 2002**

R E S O L U T I O N

**(RES. NO. W-4365), CALIFORNIA-AMERICAN WATER COMPANY
(CAL-AM). ORDER AUTHORIZING CAL-AM TO FILE RATE
SCHEDULES FOR RALPH LANE WATER SYSTEM AND CHUALAR
WATER SYSTEM WHICH ARE TO BE ACQUIRED FROM MONTEREY
COUNTY.**

SUMMARY

By Advice Letter No. 565, filed May 6, 2002, Cal-Am requests the authority to purchase the County of Monterey's (County) Ralph Lane Water System (RLW) and Chualar Water System (CW). Section 4.01 of Appendix D of Commission Decision (D.) 99-10-064, dated October 21, 1999, in the "Order Instituting Rulemaking On The Commission's Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies," does not require a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility. Therefore, this resolution grants Cal-Am authority to file rate schedules for RLW and CW once the two systems are acquired from Monterey County.

BACKGROUND

Cal-Am requests authority to purchase RLW and CW from the County in conformance with the terms and conditions of Section 4.00 of Appendix D to Decision (D.) 99-10-064, in the Order Instituting Rulemaking on the Commission's Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies. As indicated in the Summary Section above, D.99-10-064 does not require a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility. Cal-Am submits the new rate schedules and revised service area maps delineating the territory it proposes to acquire under Section V of General Order 96-A (GO 96-A) and Section 455 of the Public Utilities Code.

Section 4.00 of Appendix D to D.99-10-064, "Acquisition of Mutual and Publicly-owned Water Systems" is the applicable authority for this advice letter.

The County has heavily subsidized RLW and CW over the years and does not wish to continue doing so. In view of this, the County Board of Supervisors, at its regular meeting of October 16, 2001, approved the sale of RLW and CW to Cal-Am. The County reviewed the legal requirements regarding the sale of the two systems and determined that they were not required to hold an election among system customers for approval. The current monthly bill for a RLW customer using 1400 cubic feet of water is \$67.14. The current monthly bill for a CW customer using 1400 cubic feet of water is \$27.60.

Section 4.02 of Appendix D to D.99-10-064 states in part,

".... the acquiring utility should be authorized to file an advice letter placing into effect the existing rates of its adjacent or nearby water system, the acquired system's rates, or rates lower than either."

Cal-Am requests authorization to apply the tariff rates applicable as of January 1, 2002, for its Hidden Hills Subdivision, immediately to the customers of RLW, which will produce a monthly bill of \$52.84. Cal-Am also requests authorization to retain the existing rates the County charges CW customers and incrementally increases the rates over the next five years until they reach the same level as those in its Hidden Hills Subdivision, which is nearby.

DISCUSSION

As required on page 10 of the Mergers and Acquisition OIR, the utility may propose rates for the acquired systems, the Commission must decide whether those proposed rates are reasonable. Clearly in the case of the Ralph Lane system, when rates are going to decrease, such rates are reasonable to the customer. And, because Cal-Am knows how much it costs to service an average customer in its Monterey District, and that is what it will charge the Ralph Lane customers, such rates are reasonable to the utility.

The Chualar customers' rates will remain as they are now. These rates are significantly lower than Cal-Am's Monterey District customers pay. Such rates are clearly fair (perhaps more than fair) to the Chualar customers. However, because these rates are much lower than Cal-Am's rates, they may not be reasonable to Cal-Am. Because Cal-Am is choosing to phase in rates, and because that phase in will not adversely affect Cal-Am's other customers, those rates can be determined to be reasonable in the interim.

Cal-Am proposed to raise the CW rates incrementally over five years until they reach the Monterey District rates. We will approve the existing rates, but order Cal-Am to maintain a set of books for the Chualar service area that tracks its actual cost of service to the CW customers. Using this information, we will allow Cal-Am to file annually, after January 1, an advice letter that requests these increases and that must contain workpapers that justify the rate increase Cal-Am proposes based on the prior calendar year costs to serve CW customers. Staff will evaluate the request and recommend reasonable rates for approval by resolution.

NOTICE AND PUBLIC MEETINGS

Over the last year-and-one-half, the County has held several community town meetings with RLW and CW customers discussing the sale and the potential rate implications. All customers were individually notified of the meetings and were invited to participate in the discussions.

The County held a formal public meeting on October 10, 2001, to discuss the sale and potential rate implications on customers. All RLW and CW customers were individually notified of the meeting. The comparison of rates both under Cal-Am ownership and under the ownership of the County were the focus of discussion at the meeting. There were no protests concerning the proposed sale.

FINDINGS AND CONCLUSIONS

1. It is in the ratepayer's interest that Cal-Am purchase and take over ownership of the RLW and CW systems.
2. The rates for RLW and CW meet the requirements of D.99-10-064.

THEREFORE IT IS ORDERED THAT:

1. California-American Water Company is ordered to provide to the Water Division a true copy of the instrument effecting the sale and transfer of ownership of Ralph Lane Water System and the Chualar Water System from Monterey County to California-American Water Company once the sale and transfer is consummated.
2. California-American Water Company is authorized to make effective Schedule No. MO CO-1, General Metered Service, revised Schedule No. MO-4, Private Fire Protection Service, and revised service area maps, attached to Advice Letter 565, upon compliance with requirement set forth in Ordering Paragraph 1. Revised rate schedules and service area maps will become effective five days after receipt of sale and transfer instrument required in Ordering Paragraph 1.

3. California-American Water Company shall maintain a set of books for the Chualar Water System service area that tracks all costs of service to Chualar Water System's customers.
4. On or after January 1, 2004, and each year thereafter for three years, California-American Water Company is authorized to file an advice letter with the Commission's Water Division that requests an incremental rate increase for the Chualar Water System based on the prior calendar year costs to serve Chualar Water System's customers. After the final incremental increase, rates should be no greater than California-American Water Company's Monterey District. Each filing must include workpapers justifying the requested increase.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 5, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director